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China Report

ECONOMIC AFFAIRS

(FOUO 1/81)



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NATIONAL POLICY AND ISSUES

EDITORIAL NOTES CHINA'S ECONOMIC PROBLEMS

Tokyo THE DAILY YOMIURI in English 1 Feb 81 p 2

[Editorial: "China Economy Faces Crisis"]

[Text]

China's decision to suspend work on three petrochemical complexes being constructed with Japanese help has put Japan-China economic relations in a quandary.

The main reason for China's suspension of the three projects, which follow the stoppage of second-stage work on the Baoshan steel complex, is its miscalculation on oil development. China tried to develop 10 oil fields under a 10-year program and import advanced technology in return for its crude oil exports in order to carry out its modernization in a hurried manner. But it failed to achieve this aim. It has now become apparent that China cannot expect an increase in its crude oil output in the first half of the 1980s.

In the "readjustment processes" since 1979 of China's originally too ambitious modernization program, leading proponents of oil development, including State Energy Commission Minister Yu Qiuli, have been dismissed.

Three Major Problems

It seems that Chairman Hua Guofeng may have been forced to submit his resignation partly due to his failure to steer the national economy. But why should all the responsibility be taken by Hua and those in favor of modernization based on oil development?

The policy of using oil revenues for modernization is the core of China's four-point modernization program being advocated by senior Vice-Premier Deng Xiaoping.

China is faced with three major problems—deficits in government finances, inflation and unemployment. China's economic troubles have also been caused by

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the economic reformation carried out by Premier Zhao Ziyang, the right-hand man of Deng.

The root cause of deficits in government finances is too much spending for public works projects. And in its economic reformation program, China gave more autonomy to provinces and enterprises for the aim of cutting down control of the central government.

Inflation has been caused by excessive issuance of notes and Zhao's decentralizing of economic policies which gave birth to black market.

Coping With New Situation

To control the situation, China is now strengthening centralization of basic economic sectors, reducing note issuance, concentrating more on economic readjustment rather than on economic reform and advocating the necessity of market control. But the shift in its economic policies has been so swift as to give the impression of inconsistency. It also gives the impression of an ongoing power struggle, which is delaying the political timetable. We believe this confusion will continue for some time.

How will China compensate the loss which the Japanese enterprises concerned are liable to suffer? China's credibility is on stake here. Of course the companies involved and the Japanese Government will have to discuss the matter fully with China.

But we wonder why Japanese enterprises obsessed with China fever did not foresee this possibility. It seems that they did not carry out enough preparatory surveys. They must bear the blame for this.

(February 1)

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ECONOMIC PLANNING

MINISTER PREDICTS OIL PRODUCTION IN PRC TO DECREASE

Tokyo ASAHI SHIMBUN in Japanese 4 Sep 80 p 1 [American Embassy translation]

[Text] Oil Production in China Will Decrease for Several Years: Vice-Premier Yao to ITI Vice-Minister; Effects on Japan-China Trade Will Be Serious

[Beijing, September 4, Special Correspondent Funahashi]--According to what was revealed by a source concerned on the 4th, the Chinese side, in the series of talks between ITI Administrative Vice-Minister Yano and Vice-Premier Yao Yilin (chairman of the State Planning Committee), Vice-Premier Kang Shien, and State Planning Committee Deputy Chairman Fang Weizhong, which talks were held in Beijing on the 3d, showed the prospect that "Oil production in China will continue to decrease until the latter half of the 1980's." At the same time, it clarified the following points in regard to the New 10-Year Economic Plan which is scheduled to be started from 1981: (1) The rate of growth in industrial production will be 5.5 percent in the first half and 6 percent in the latter half; and (2) the number of newly employed persons will be five million annually.

It is said that oil production in China has reached the limit recently. At the third session of the Fifth National People's Congress, which is now in session, Vice-Premier Yao Yilin reported the severe prospect that oil production in fiscal 1981 will hardly increase. However, it has been clarified, for the first time, that China will fall into a situation where it must actually expect a "reduced-production structure for a long period of time." It is likely that this will have serious effects not only on the future of China's oil exports to Japan but also on Japan-China trade as a whole, which is moving with oil exports as the axis.

This series of talks was held in the form of the two sides' exchanging opinions mainly on the New 10-Year Economic Plan which China is scheduled to carry out from next year. The Chinese side pointed out that the biggest problematical point of the said Plan lies in "stable supply of energy, especially oil." It showed the prospect that oil production, in particular, will decrease from 1982 on, rather than level off, and that such a situation will continue until the latter half of the 1980's. At the same time, it clarified the policy of making the development and saving of energy, centering on oil, a top-priority task.

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At the same time, the Chinese side expressed its desire as to the period of economic adjustment scheduled from 1979 to 1981, saying that "We know that it will be very difficult, but we want to complete it in three years, for the time being, as scheduled." On the other hand, it said, in regard to the framework of the said Plan, that the average economic growth rate will be estimated at a little less than 6 percent, and that the following points will be incorporated: (1) The rate of growth in industrial production will be fixed at 5.5 percent in the first half and at 6 percent in the latter half; and (2) the number of newly employed persons will be five million annually.

Furthermore, Vice-Premier Yao Yilin clarified that China is scheduled to draw up the draft for the 10-Year Plan, which the said Planning Committee is preparing at present, by the end of this month, send it to various areas and sectors so that the intentions of those who are governed will be conveyed to those who govern, and draw up the Government plan by the end of this year.

Fails in Development Investment

(Commentary) Oil production in China amounts to 106 million tons annually at present, and China is still a prominent oil-producing nation in the world. However, because of its failure in the domestic development investment policy during the past several years, it seems that a yellow light has begun to blink on and off for the "big oil-producing nation."

The rate of growth in oil production in China last year was only 2 percent, and it has hardly increased this year, either. As to the production plan, too, the output is said to be "106 million tons, showing no increase," as shown in the economic report by Vice-Premier Yao Yilin at the third session of the National People's Congress on the 30th of last month.

However, for such reasons as that the vitality of oil fields in that country is declining, and that it has lacked strategic, preferential oil development investment policies during the past several years, China's oil production structure has come to a more serious deadlock than expected. The judgment that China will be obliged to reduce production for nearly five years from 1982 on, at least, has been made clear by a Chinese Government leader for the first time. In this respect, the statements by Vice-Premier Yao Yilin and others are important.

About the spring of this year, the Chinese side conveyed to the Japanese side the view that it will be difficult to export to Japan 9,500,000 tons in 1981 and 15 million tons in 1982, as decided in the Long-Term Trade Agreement with Japan. It can be said that the statements by Vice-Premier Yao Yilin and others this time are designed to seek the Japanese side's better understanding of China's painful "domestic circumstances," with the negotiations on the said Agreement, which are to be started from the middle of this month, near at hand.

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However, if the "long-term reduced production structure" at least up till the latter half of the 1980's takes root, there will arise a change in the mode of action by the "big oil-producing nation," which is trying to push modernization by participating in the international economy with oil as a weapon and purchasing advanced technology and facilities including plants, in return for its oil exports. Also, it seems impossible to avoid dark clouds hanging over the future of Japan-China trade, which has been growing, with the form of exchange between "oil" and "machinery" as the axis.

Vice-Premier Yu Qiuli was already made to take the responsibility for such an "oil policy lacking scientific, rational management," and has been released from the post of Chairman of the State Planning Committee. He has been virtually demoted to the post of Chairman of the newly established Energy Committee. Moreover, the forces of the so-called "oil faction," including Oil Industry Minister Song Zhenming, have been made to retreat. Under the present situation in which the Chinese economy is deepening interdependence with the international economy, with oil as a spring, and is bound by its external pledge to export oil, unlike in the days of the "closed economic structure" in the past, under which China produced oil to meet only its demand, reduced production of oil in that country may lead to "nonfulfillment of its promise." It seems impossible to consider the retreat of the forces including the "oil faction" separately from such an aspect of internationalization of the Chinese economy.

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